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# Procure-to-Pay Capability Summary

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**SUBJECT:** Payment Instructions

Contracts that contain multi-funded non-severable deliverables, authorize financing payments, or contain cost-reimbursement (including time and materials/labor hour line items) require specific cost allocation approaches to ensure proper accounting for the funds disbursed. Analyses of historic data found misapplication of payment instructions and subsequent recording of transactions that were not compliant with the Generally Accepted Accounting Principles (GAAP) or fiscal law. An Ad Hoc team of representatives from DFAS, OUSD Comptroller and CFO, the military services, and Defense Pricing & Contracting (DPC), formerly Defense Procurement and Acquisition Policy (DPAP), concluded that the appropriate accounting treatment for payments can be derived from the type of effort acquired and the type of payment. This resulted in recent policy changes that have implemented a standard set of payment instructions that can be inserted in contracts to guide entitlement systems on the proper payment approach depending on the type of payment request and the type of effort.

**POLICY:** The Defense Federal Acquisition Regulation Supplement's Procedures, Guidance, and Information (DFARS PGI) Case 2018-P001 was published December 1, 2017, and updates PGI 204.7108. The policy now says that any type of contract or order that is funded by multiple accounting classification citations and meets certain other guidelines shall carry a table of payment instructions in section G of the contract. Subsequent policy memos have clarified that the contracts may carry the full table or a URL link to the PGI instruction in which the table is published. DFARS Case 2017-D036 remains in process to update those portions of the DFARS covered by the work of the Ad Hoc team which could not be covered by the change to the PGI.

**DATA STANDARDS:** The Payment Instructions table in PGI 204.7108 provides a standard set of rules for payments.

**SYSTEMS:** Contract writing systems must be updated to be inserting either the Payment Instructions table or a link to the table in Section G of relevant contracts. Mechanization of Contract Actions System (MOCAS) and other entitlement systems must be updated to derive payment instructions from the type of payment request submitted following the rules in the matrix.

**IMPACT:** Prior to this change, contracting officers were required to provide payment instructions in the contract. Incorrect payment instructions were often entered on the award document, which negatively impacted payment processing. Payment instruction errors were the third most common cause of contract deficiency reports, even though less than 10% of contracts require the inclusion of payment instructions. Using a standard set of payment instructions will result in faster and more accurate payments and enhance auditability.

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